



Auditor of Public Accounts
Adam H. Edelen

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Contact: Stephenie Steitzer
stephenie.steitzer@auditor.ky.gov
502.564.5841
513.289.7667

Edelen Releases Audit of Monroe County Fiscal Court

FRANKFORT, Ky. – State Auditor Adam Edelen has released the audit of the financial statements of the Monroe County Fiscal Court for the fiscal year ended June 30, 2011. State law requires annual audits of county fiscal courts.

The audit found that the county's financial statements, in all material respects, fairly present the county's assets, liabilities, and net assets arising from cash transactions and revenues received and expenditures paid in conformity with the modified cash basis of accounting.

As part of the audit process, the auditor must comment on non-compliance with laws, regulations, contracts and grants. The auditor must also comment on material weaknesses involving the internal control over financial operations and reporting.

The audit contains the following comments:

- **The fiscal court should follow the county's procurement policy procedures for all construction projects over \$20,000.** During the prior administration, the former county judge/executive advertised for bids on the Monroe County Wellness Center Phase I building project on August 21, 2008. Bids were received and subsequently rejected by the former county judge/executive on September 17, 2008. The county informed the project engineer they could not afford the building design and would need to suspend work. The county then initiated the process again using "design-build" in September 2009. The county paid the final expenditures for the project on August 19, 2010.

The County's procurement policy does not authorize this project delivery method for a procurement of design and construction services, and the county has not adopted the state's model procurement code for local public agencies, KRS 45A.345 to 45A.460.

Our review of project files noted the following:

- Available funds for this project were \$2,927,051, but a budget was arbitrarily set for the project by the county judge/executive of \$2,500,000.
- In September 2009, the fiscal court advertised for sealed bid proposals for design-build services for the Monroe County Wellness Center Phase I construction project. The sealed bids were to be accompanied by a design-build proposal.
- Design-build proposals were to include scope of work, engineering designs, and design-build experience.
- The bids were publicly opened on October 8, 2009, and all bids came in over budget, but not over the amount of funds available for the project, and were publicly rejected by fiscal court on October 15, 2009.
- The fiscal court decided not to solicit new competitive bids on the project, but to use only design-build proposals, to set the construction costs not to exceed \$2.5 million without basing the request for proposals on revised specifications and quantities for the project as required by the county's procurement policy and KRS 45A.375, and to require each vendor to give a 30-minute presentation. The design-build proposals were due on October 29, 2009 and presentations were to be held on November 3, 2009.
- Design-build proposals were collected on October 29, 2009 for review.
- Design-build presentations were conducted on November 3, 2009.
- The contract for the design-build delivery method for this procurement was awarded to J&S Construction on November 3, 2009.
- Contract between J&S Construction and the fiscal court was signed November 4, 2009.

Auditors noted the following:

- According to the county's procurement policy, competitive sealed bids will be used for all construction projects over \$20,000 if the project has detailed specifications for the goods and services to be performed and the primary basis is cost. If all bids exceed available funds the fiscal court may enter into competitive negotiations in accordance with KRS 45A.375. Auditors noted that the available funds were not exceeded; however, the scope of work was not complete and detailed specifications were lacking.
- According to the county's procurement policy, the competitive negotiation method can only be used if specifications cannot be made specific enough to permit the award of a bid on the basis of either the lowest bid price or the lowest evaluated bid price and the services to be procured are professional or personal.
- The competitive negotiation method requires a request for proposals (RFP) to be advertised and to include identification of factors to be considered in the evaluation of the proposals and the relative weights assigned to each selection factor. Weights could be identified as percentages or points. Cost is also considered as a factor. This process would include a selection committee that would evaluate the cost and the other factors separately. A written evaluation of each proposal response would be prepared. The vendor with the highest combination score would be awarded the contract.
- Auditors noted that the request for proposals did not include any weights for the factors. The fiscal court may not set the budget for the construction project at a fixed price and require all

vendors to design a building for that price. Rather, the request for proposals should have been based on detailed revised specifications, so that all proposals submitted would be based on the same specifications. If written evaluations were prepared by the selection committee, they were not included in the project files and were never submitted to auditors for review.

We recommend the fiscal court use competitive sealed bids for all construction projects over \$20,000. If that method is not feasible, it should use other methods authorized in the county's procurement policy and apply them properly. The design-build method of delivery for procurement is not available under the county's current procurement policy.

County judge/executive's response: No response.

- **The fiscal court lacks adequate segregation of duties over receipts.** The fiscal court has a lack of segregation of duties over the receipt process. The county treasurer receives the mail, prepares the deposit, posts to the receipts ledger, and reconciles the monthly bank statements. No documented review or compensating controls exist over these areas.

Adequate segregation of duties would prevent the same person from having a significant role in the receiving, recording, and reporting of receipts and reconciliation of those receipts. The Fiscal Court should strengthen internal controls by segregating these duties. If segregation of duties is not possible, due to a limited number of staff, strong oversight should be implemented. The employee providing this oversight should document his or her review by initialing source documents. In addition, we recommend that a detailed receipts log be prepared and be compared to the deposit tickets by someone other than the preparer and that checks received in the mail be stamped immediately with a restrictive endorsement.

County judge/executive's response: No response.

- **The jail canteen lacks an adequate segregation of duties.** A lack of segregation of duties exists over all jail canteen accounting functions. The bookkeeper receives the mail, prepares and deposits the receipts, and writes checks. Adequate segregation of duties would prevent the same person from having a significant role in the receiving process, recording, and reporting of receipts and disbursements. The jailer should strengthen internal controls by either segregating the duties or by implementing and documenting compensating controls. If one employee is solely responsible for the receipt, disbursement, and reporting and reconciling process, the risk of misappropriation of assets and/or inaccurate financial reporting increases. We recommend the jailer separate the duties in preparing and depositing receipts, recording transactions, preparing checks, and reconciling bank accounts. If these duties cannot be segregated due to limited number of staff or budget, strong oversight should be provided over the employee responsible for these duties. Any compensating controls performed should be documented.

County judge/executive's response: No response.

Jailer's Response: No response.

- **The fire and rescue squad lacks adequate segregation of duties.** A lack of segregation of duties exists over all accounting functions. The treasurer receives all mail, prepares and deposits the receipts, prepares checks, and performs the bank reconciliations. Adequate segregation of duties would prevent the same person from having a significant role in the receiving processing, recording, and reporting of receipts and disbursements. The Fire and Rescue Squad should strengthen internal controls by either segregating the duties or by implementing and documenting compensating controls.

If one employee is solely responsible for the receipt, disbursement, and reporting and reconciling process, the risk of misappropriation of assets and/or inaccurate financial reporting increases. We recommend the Fire and Rescue Squad separate the duties in preparing and depositing receipts, recording transactions, preparing checks, and reconciling bank accounts. If these duties cannot be segregated due to limited number of staff or budget, strong oversight should be provided over the employee responsible for these duties. Any compensating controls performed should be documented.

Monroe County Fire and Rescue treasurer's response: No response.

This report, in its entirety, can be accessed on the Internet at the following site: [here](#).

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